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S E C R E T SECTION 01 OF 03 BAGHDAD 002962

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SUBJECT: AMB, CG AND PM DISCUSS ELECTIONS, GOI/KRG
RELATIONS, OIL AND POWER, FOREIGN INVESTMENT AND ONGOING
CONTRACT NEGOTIATIONS.

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Classified By: AMB Ryan C. Crocker for reasons 1.4 (b) and (d)

¶1. (S/NF) SUMMARY: In the regular weekly meeting held on September 11 with Iraqi Prime Minister Nuri al-Maliki, Ambassador and Commanding General MNF-I General David Petraeus discussed the elections law, relations between the KRG and GOI, foreign business investment in Iraq, crude oil processing and heavy fuel oil (HFO) stocks, and ongoing contract negotiations. Ambassador stressed the importance of elections; Maliki was optimistic on holding elections in Iraq by the end of the year, "with or without a new elections law." Ambassador, in responding to Maliki's rhetoric toward the Kurds, emphasized that political problems must have political solutions and cautioned against actions that could jeopardize all that had been achieved. PM Maliki discussed UAE investment and diplomatic relations in Iraq, as well as the "late arrival" of U.S. companies in Iraq. General Petraeus noted that Iraq's precipitous rise in the price of HFO had filled storage capacity at the Baiji refinery and negatively affected continued refining. Maliki called the Minister of Oil and directed him to lower prices in order to increase exports of HFO and free up storage capacity for continued crude oil processing. General Petraeus further commented that a number of contract disputes over "a few million dollars" were costing the GOI tens of millions of dollars in lost revenues. General Petraeus specifically mentioned the O&M contract for electrical power generation and ongoing issues with the Baghdad International Airport (BIAP) security contract. The PM's staff called the Minister of Electricity who said O&M contract would be signed "next week." End summary.

¶2. (S/NF) PM Maliki welcomed John Hannah, Special Assistant to the Vice President for National Security Affairs, and asked Hannah to pass on his regards to VP Cheney. The PM commented about VP Cheney's recent trip to Georgia and remarked that while the Georgians have historically had problems with Russia, even under the former Soviet Union, the current crisis happened and developed very quickly.

Status of Elections Law

¶3. (S/NF) Ambassador opened by noting that the Iraqi Council of Representatives (COR) was back in session and that he had met with Speaker Mashadani to discuss the elections law. Ambassador said that Mashadani is determined to bring Parliament to consensus, taking into account the recommendations offered by the United Nations

Assistance Mission in Iraq. Ambassador further commented that Mashadani had formed a committee comprised of Sunni, Shia, Turkmen, Kurds and Christians to discuss the elections law; which had also recently met.

¶4. (S/NF) PM Maliki said that he had also talked to Mashadani and that Mashadani was optimistic an agreement would be reached. Maliki said that "they" had all agreed that, with or without a new elections law, the elections must take place.

Political Solutions for Political Problems

¶5. (S/NF) Using the elections to turn the subject to the Kurds, Maliki complained about Kurdish claims that Mosul is a disputed area. The PM stated that he didn't understand how the Kurds could continue arguing over disputed areas and causing problems. "Do the Kurds want their own state" he asked rhetorically. Either Iraq will follow a federal system or not. If this is how the Kurds view federalism it will mean "civil war." Ambassador interjected that the problems Maliki was describing were actually caused by Saddam and his destructive use of sectarianism. Maliki conceded the point and said Saddam's practices continue to have repercussions.

¶6. (S/NF) Changing tack, PM Maliki stated that he had met with Barham Salih and showed him a visa that KRG issues to Iraqis to enter the KRG. When the visa expires, Iraqis are supposed to leave the KRG. Maliki asked rhetorically whether it was required to have a visa for travel between states in the U.S. Ambassador replied that when he first

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arrived in Iraq he noted the predominant emotion was that of fear. The Sunni were afraid of the future. The Shia were afraid of the past. The Kurds were afraid of the past and the future. Now the KRG issue is a result of two things: first, the legacy of Saddam and, second, the lack of a political dialogue in Iraq involving all parties to establish an agreed upon future for Iraq.

¶7. (S/NF) Maliki responded that in addition to fear there was greed. The Shia had thought that they would control the entire country. The Kurds had thought they would extend their borders to the city of Samarra. The Sunni had thought by means of insurgency they could bring back the past. Everyone is more realistic now except for the Kurds, Maliki emphasized. He concluded that the Kurds are "foolish if they think that they can establish such a state."

¶8. (S/NF) Ambassador remarked that it was important to look at all that had been accomplished. He noted that everything Maliki had achieved over the last year was difficult even to comprehend. The strength of the State was vastly greater than before. Maliki commented that these accomplishments came at great expense of American and Iraqi blood. The PM noted that it is often said - "keeping a victory is harder than achieving it." Ambassador replied that we can't afford to risk all that had been achieved, given the price we have paid.

¶9. (S/NF) Ambassador stated that "political problems require political solutions." He told Maliki that he was planning to travel to Erbil later in the day and would meet with KRG President Barzani. (Note: This trip was subsequently postponed until 9/16 due to poor weather in Erbil. End Note) He told Maliki that he would tell President Barzani the same thing. Maliki stated that he wanted Ambassador to convey his warmest regards and respect to KRG President Barzani but he hoped Barzani would be objective. He said that the constitution was the common ground upon which they could agree and that the Kurds must

avoid taking short term measures that could jeopardize all they had achieved. Ambassador concurred.

UAE Diplomatic and Business Presence in Iraq

¶10. (S/NF) Shifting focus, Ambassador commented on the UAE's recent establishment of diplomatic relations with GOI. The UAE Ambassador to Iraq presented his credentials to GOI and was confirmed. Maliki said that he had met with the UAE Ambassador who was eager for UAE companies to enter Iraqi markets. The PM noted that UAE companies had expressed interest in many sectors, including housing, water, sewage and power.

¶11. (S/NF) Ambassador remarked on the current housing problem in Iraq and encouraged Maliki to work with UAE and possibly Egyptian companies to develop large scale housing projects. Maliki responded that there is already an agreement to build 63,000 housing units at the Rasheed military base and another 75,000 housing units in Dinma. Maliki stated that these projects would also employ many Iraqi workers and engineers. Additionally, the PM noted plans to build two new hospitals and that funding has been set aside for a total of ten new hospitals.

U.S. Business Investment in Iraq

¶12. (S/NF) PM Maliki noted that U.S. companies are very, very slow to invest in Iraq, with the exception of General Electric (GE), which recently signed a contract to construct power plants. Maliki commended General Petraeus for encouraging GE's involvement. General Petraeus asked about the Parsons Brinckerhoff contract for maintenance of Iraq's electrical power generation system, emphasizing its importance and asking if it had been signed. The PM asked his Chief of Staff, Dr. Tarek Abdullah, to call the Minister of Electricity (MoE) to check on the status of the contract. Dr. Tarek left the room and upon returning reported that the last revisions had been received the previous day and that MoE plans to sign the contract next week. General Petraeus and Ambassador noted that the costs

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from the delay are considerable as the lack of maintenance had affected electrical generation and urged the PM to have the agreement signed as soon as possible.

Oil and Power Production

¶13. (S/NF) PM Maliki, in discussing electrical power generation, commented on the lack of available diesel fuel for use in Iraqi power plants. He noted that Iran and Kuwait are not supplying sufficient supplies of diesel to meet current Iraqi demand.

¶14. (S/NF) General Petraeus cautioned the PM on the GOI's precipitous increase in the price of HFO. General Petraeus noted that Syria and Jordan are no longer purchasing HFO from Iraq because of the price hike and that reserve capacity is now at 98%, which is affecting the ability to refine more crude oil at the Baiji refinery. Ambassador said that the reality was that no one is going to pay that price for HFO and that it would ultimately shut down production because storage was being overwhelmed by HFO. General Petraeus commented that Baiji refinery would have to shut down because of the excess HFO. Petraeus urged the PM to address this issue, as production was already being adversely impacted by the excess stocks of HFO.

¶15. (S/NF) PM Maliki interrupted the meeting and called

Hussein Shahristani, Minister of Oil, from his cell phone and discussed the situation. Maliki directed Shahristani to lower the price of HFO, in order to stimulate demand for Iraq's excess capacity. General Petraeus offered that the PM could increase the price of oil gradually over time, but that such extreme price increases were problematic. PM noted that an additional problem is transporting fuel to the Baiji refinery. General Petraeus replied that the Coalition is working on the pipelines from several locations to Baiji and that these repairs were coming along.

Airport Security Contract Negotiations

¶16. (S/NF) General Petraeus emphasized the importance of resolving issues over the security contract for BIAP. He noted that for the last 14 months operations at BIAP had been threatened by the uncertainty of a month to month contract. General Petraeus again warned of the potential costs of prolonged contract disputes and quibbling over money, and he pointed out that a long-term contract would have been cheaper for Iraq. He noted that many companies are reluctant to do business in Iraq, due to the uncertainty in the business climate. He also stated that the U.S. did not care which company was chosen to provide security - only that there was stability.

Rule of Law Complex Opens

¶17. (S/NF) PM Maliki, General Petraeus and Ambassador discussed the opening of the new Rule of Law Complex that all three had attended on 10 September. Ambassador noted the importance of PM Maliki's presence at the event and the message it sent to Iraqis. PM Maliki commented that there is much work to be done with regard to rule of law in Iraq. He also noted that they hope to get rid of a number of "bad judges" to improve the administration of justice.
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